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C O N F I D E N T I A L SECTION 01 OF 02 LILONGWE 000735

SIPDIS

STATE FOR AF/S T. CRAIG
STATE PLEASE PASS TO OPIC FOR JAMES POLAN

E.O. 12958: DECL: 08/02/2014
TAGS: [EINV](#) [ETRD](#) [PREL](#) [MI](#)
SUBJECT: NACALA CORRIDOR AGREEMENT SIGNED

REF: A. MAPUTO 463

[B](#). LILONGWE 494
[C](#). LILONGWE 514

Classified By: Econoff William Taliaferro for reasons 1.4 B and D

SUMMARY

[1](#)1. (C) After several last-minutes delays and missed deadlines, the Government of Malawi has signed a direct agreement with the Overseas Private Investment Corporation (OPIC) and the Central East African Railways Company (CEAR) to revive the Nacala Port and Rail Corridor. CEAR's holding company broke the impasse by agreeing in principle to let a potential Malawian investor buy into the company, despite rumors of financial connections with the former president. The way is now clear for OPIC to reinstate a loan offer that was allowed to lapse in May. If the project comes to fruition, it stands to cut the transport cost of Malawian imports and exports significantly. END SUMMARY.

STUCK ON OWNERSHIP

[1](#)2. (U) On July 29, Finance Minister Goodall Gondwe signed the OPIC direct agreement that had been the latest stumbling block for the Nacala Port and Rail Corridor. The project will refurbish the rail link between Malawi and the Mozambican deepwater port of Nacala, as well as the port itself. Despite assurances from both the previous and the current government that Malawi was eager to close the deal, the GOM had refused since March to sign the OPIC agreement unless the project's holding company held open an ownership stake for a potential Malawian investor.

[1](#)3. (U) The holding company, Nacala Corridor Development Company (SDCN, the Mozambican abbreviation), recently agreed with the GOM on a process by which Malawian investors could come forward with an offer within the next six months. Agreement on the ownership question instantly opened the way for the GOM to sign the \$30 million OPIC loan agreement. For the agreement to take effect, however, OPIC must reinstate a loan offer that lapsed in May because of the ownership disagreement.

RUMORS OF CORRUPTION

[1](#)4. (C) The GOM's demands on behalf of a private investor have fueled the rumor that former president (and current ruling party chair) Bakili Muluzi has a personal stake in a potential investor, Farmers World. The American shareholders in SDCN, Edlow Resources Limited (PROTECT), have told us they are convinced Farmers World must have some extraordinary financial connection with Malawian political leadership to have induced the GOM to hold up the OPIC deal. Sources in the commercial sector here have echoed this conviction, and the presence of Farmers World representatives at GOM meetings on Nacala suggests that it has some basis in fact. Muluzi is known to be deeply invested in Malawian trucking, so an interest in a transport project that could someday dominate bulk import and export shipping is plausible, though unsubstantiated.

COMMENT: CLEAR ECONOMIC BENEFITS

[1](#)5. (U) A modern, reliable Nacala Port and Rail Corridor could have a sizable effect on the Malawian economy. The country relies heavily on imported fertilizers for its agricultural base and on tobacco and other agricultural exports for foreign currency. The cost and unpredictability of moving goods via mixed truck and rail from seaports in South Africa, Tanzania, and Mozambique constitute major constraints on the

efficiency of Malawi's agriculture and the competitiveness of its exports. With the current GOM finally focusing on agricultural trade as a way out of poverty, the time seems ripe for attacking these constraints. The Nacala Corridor would go a long way towards accomplishing that, if only by connecting Malawi with the closest port. An additional extension of the rail line to the Zambian border at Chipata could make Malawi into a modest transportation hub for south-central Africa.

RASPOLIC